Prepared Statement
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Review of Federal Farm Policy Programs

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Introduction

Good morning Mr. Chairman and Members of the Committee. My name is Tom Stenzel and I currently serve as President and CEO of United Fresh Fruit & Vegetable Association (United). I greatly appreciate the opportunity to testify this morning on behalf of the U.S. fruit and vegetable industry, regarding the future direction of farm policy.

As the national trade association representing the views of producers, wholesalers, distributors, brokers, and processors of fresh fruits and vegetables, United has provided a forum for the produce industry to advance common interests since 1904. Over the years, the produce industry has gone through tremendous changes in an effort to remain profitable, satisfy consumer demands, conform to new technology, and compete in an increasingly global market place. While the perishable nature of our products present unique challenges and highly volatile markets, the industry has not relied on traditional farm programs to sustain the industry. Rather, we have relied on the economics of supply and demand. However, many of the economic stresses inherent to other commodity sectors are impacting the fruit and vegetable sector as well as other issues unique to our industry. Virtually all commodity sectors of the U.S. produce industry are distressed and American producers have suffered economic damages over the past few years as a consequence of:

- Increase trade competition from subsidized foreign competitors and a strong U.S. dollar;
- Increased cost of production in large part tied to government regulations and mandates in the United States; and
- Adverse consequences of consolidation in U.S. retail trade and other markets reducing the number of supplier customers and reducing access to consumers.

With the combined fruit and vegetable industry in the United States at over $30 billion farm gate value, it is extremely important that all issues affecting our industry be laid on the table for consideration and appropriately acted upon.

Fruit and Vegetable Industry Overview[i]

As we enter this next century, the U.S. fresh fruit and vegetable industry is focused on adding value and decreasing costs by streamlining distribution and understanding customer needs. This dynamic system has evolved towards predominantly direct sales from shippers to final buyers, both food service and retail, with food service channels absorbing a growing share of total volume. The make-up of the industry is also changing as more produce companies introduce value-added products like fresh-cut produce, designed to respond to the growing demands for convenience in food preparation and consumption. In turn, fresh produce also continues to be a critical element in the competitive strategy of retailers, and its year-round availability is now a necessity for both food service and retail buyers.

Because produce's highly perishable nature, the industry's distribution system has evolved in order to move product quickly and efficiently from the major production areas to the retail markets. A number of different, often competing industries form the produce distribution system that procures, packs, ships, warehouses, facilitates transactions between buyers and sellers, and distributes to local retailers and foodservice outlets.

After being harvested, fresh produce is handled and packed either by a shipper or by the grower. For instance, bulk lettuce is often washed and packaged in the field; grapes are pre-cooled and shipped; and potatoes are stored, packed, shipped, and often repacked near the point of harvest.

To estimate the value of fresh fruits and vegetables at the production level, these handling and packing costs are added to growing costs to derive the total value of fresh produce before it is shipped to market. Because the production of fresh produce is highly integrated with the harvesting, packing, and shipping systems, production values are estimated using the shipping point, or f.o.b. (free-on- board), values.

The value of U.S. production of fresh fruits and vegetables by grower-shippers reached $16.8 billion in 1997, up from $10.7 billion in 1987, a 57-percent increase. Fresh fruit production rose from $6.0 billion to $7.1 billion, while fresh vegetables jumped from $4.7 billion to $9.7 billion. To arrive at the total value of grower-shipper shipments (sales) to the U.S. domestic food marketing system, we must account for imports and exports. Imports of fresh fruits and vegetables equaled $4.1 billion in 1997, a 105-percent increase over 1987's total of $2.0 billion. Both grower-shippers ($2.6 billion) and merchant wholesalers ($1.5 billion) took delivery of 1997's produce imports (See Attachment 1 and 2).

Exports by both grower-shippers ($1.6 billion) and merchant wholesalers reached $3.1 billion in 1997, up 158 percent over 1987. Thus, the net value of produce imports minus exports in 1997 by grower-shippers is $1.0 billion, which, when added to domestic production of $16.8 billion, gives total shipments to the U.S. distribution system of $17.8 billion. One decade earlier, the total value of produce entering the U.S. distribution system from grower-shippers was $11.2 billion.

Although shipments of both fruits and vegetables increased between 1987 and 1997, vegetable shipments jumped 102 percent, versus 19 percent for fruits. The top three vegetables shipped for fresh use were lettuce, tomatoes, and potatoes. These accounted for 52.9 percent of total shipments in 1987, but for only 33.4 percent in 1997. This is partially due to the reporting of more vegetable items beginning in 1997. Among fresh fruit shipments, those with the highest value in 1987 and 1997 were apples, oranges, and strawberries. The leading fruits accounted for 48.4 percent of shipments in 1987 and 51.8 percent in 1997.

Grower-shippers serve a number of domestic produce customers, including wholesalers, self-distributing retailers, foodservice firms, and direct markets. The share of fresh vegetable purchases by wholesalers was estimated to vary from 35 to 55 percent in 1994, by retailers 20 to 40 percent, and by foodservice establishments 25 to 45 percent.

Produce Industry Outlook[ii]

U.S. Farm Receipts – Between 2001 and 2010, projections indicate that total farm value of produce will increase at an average rate of 2.3 percent per year, reaching $37.0 billion in 2010.

The farm value of fruits is expected to reach $16.7 billion by 2010, while the value of vegetables and melons is expected to reach $20.3 billion. These increases over time, though, contradict the current situation in the fruit and vegetable sector.

To put it mildly, the U.S. fruit sector is hurting. This year, for instance, lower prices are expected due to an expected bumper grape crop in California which is likely to put downward pressure on grape prices; frost in Florida is expected to reduce production of oranges in that state; and lower prices are expected for apples due to large supplies in Washington and tougher competition in the global apple market. These large supplies have produced persistent low grower prices during the last few years and recovery is not expected for at least another four years for some crops. Unfortunately, the recovery will not be helped much by domestic demand.

<u>Consumption Increases Expected to be Modest</u> – While produce farm receipts are expected to rise a total of about 23.3 percent during 2001-2010, per capita domestic use is expected to increase a total of only 4.0 percent during the same period. Domestic per capita use of the major vegetables and melons is projected to grow at a faster rate than the major fruits. For the major vegetables and melons (including potatoes), domestic use will increase by about 5.0 percent during 2001-2010, while the increase in domestic fruit use will be less than 1.0 percent. Total consumption of vegetables (all vegetables, including potatoes, and melons) is projected to reach about 473.0 pounds, while per capita consumption of fruits (including citrus and non-citrus fruits, and berries) is expected to reach 310 pounds. As in the recent past, much of the rise in domestic per capita use is attributed to the processing sector (mainly potatoes, sweet corn and tomatoes for vegetables, and apples, grapes and oranges for fruits). On average, potatoes are expected to make up 35.0 percent of all domestic consumption of vegetables during 2001-2010. Further, processed potatoes (mainly frozen) will account for about 49.0 percent of all domestic processed vegetable use during the period. Total potato consumption is expected to increase at an average rate of 1.6 percent per year compared to an average rate of 2.1 percent per year for processed potatoes.

<u>Export Demand Important to U.S. Produce Industry</u> – With production of the major fruits and vegetables increasing in recent years and domestic consumption of these commodities remaining flat, U.S. growers have relied on export demand for some major fruits (e.g. apples, grapes, oranges, sweet cherries, and prunes) and vegetables (e.g. potatoes) to soften downward pressures on domestic prices. Effort in the form of product introduction and promotion abroad had started paying off when the Asian economic crisis hit. The affected Asian economies are now recovering well, and several other developing economies in Asia, Central and South America, Eastern Europe, and Africa are also showing growth. In the future, though, it is the overall world economic growth that will greatly influence U.S. fruit and vegetable exports. It is expected that the developing countries of the Pacific Rim region, Eastern Europe and South America have more potential for U.S. export growth, as their economies are likely to grow faster than the mature economies of Western Europe and North America.

This year projections on trade are in line with those published by the U.S. Department of Agriculture (USDA). Specifically, the value of fruit imports is expected to grow at an average rate of 3.2 percent a year, while that of vegetable and melon imports may grow at an average rate of 4.1 percent a year during 2001-2010. Exports of the major fruits and vegetables will also grow during this same period. The value of fruit and vegetable exports are expected to grow at an average rate of 4.3 percent and 3.6 percent, respectively, per year during 2001-2010. This resumption in growth partly explains the recovery in price for some products in the next two to four years. Export growth may also be influenced by developments in trade and production support policies at home and abroad.

Farm Bill Working Group

In September 2000, produce industry leaders met at United's Washington Public Policy Conference to discuss the industry's participation in developing policy positions for the Farm Bill debate during the 107th Congress. These leaders agreed that as a significant contributor to our nation's agricultural production and positive trade balance it is extremely important that the issues affecting the produce industry be considered and the industry play a major role in the development of the nation's farm policy. As a result, the *Farm Bill Working Group* was created with 40 industry members representing 24 produce organizations from every fruit and vegetable producing region in the United States participating in this effort (See Attachment 3).

Mr. Chairman, let me be clear about this process, the working group took seriously the call from the industry to work and find solutions to the economic concerns expressed over the last several years by our industry. In turn, what we present to the House Agriculture Committee today is the most comprehensive effort to date by the produce industry to develop federal farm policy which elevates the federal government's financial investment into program priorities for the produce industry.

The *Working Group* was charged with identifying specific issue items and deciding what would be the most effective way to participate in order to advance our policy positions. The results of that work are contained in a "blue print" as the produce industry's recommendations for developing farm policy which would be beneficial to the fruit and vegetable industry. Consequently, we also took heed of the message from Congress and examined federal farm programs from top to bottom in developing over 50 legislative recommendations covering 11 key issue areas.

Produce Industry Farm Policy Recommendations

[Overall the produce industry strongly supports the development of farm policies that will sustain financial stability and viability of our nation's agriculture industry while maintaining appropriate flexibility for our producers. Ultimately, we believe the goal of any farm policy developed by Congress, the Administration, and commodity groups should not advocate recommendations which distort the market place, but rather promote the development of policy from a "market basket" approach. This market basket approach will look to advance policy that promotes consumption and demand for our agricultural products while developing tools for the agriculture industry that will drive utilization of the tremendous resources we offer the world. Simply stated, the produce industry's Farm Bill Working group supports the overall farm policy goal:

> *Federal farm policy should be developed for the produce industry which ensures good producers are not put out of business due to forces beyond their control. In turn, the federal government should elevate its financial investment into program priorities for the produce industry and work cooperatively in achieving the industry's continued growth and prosperity. Ultimately, the goal of any farm policy should be to enhance the tools necessary to drive demand, utilization, and consumption of our agricultural products and not distort the growth of U.S. agricultural products in the domestic and international market place. Therefore, Congress should utilize the Farm Bill to allocate funding that ensures the produce industry receives a proportionate share of outlays for our industry program priorities. This investment would fund program priorities including: conservation incentives; loan mechanisms; nutrition; international market access and food aid; pest and diseases prevention initiatives; marketing and fair trading priorities; risk management tools; infrastructure investments; research priorities; food safety initiatives and, other initiatives.*

The produce industry's farm policy recommendations are divided into three categories: (1) mandatory farm programs; (2) discretionary farm programs; and (3) miscellaneous policy considerations. The current annual budgetary estimates under each of these categories includes:

Mandatory Farm Programs –	$3.431 Billion
Discretionary Farm Programs –	$148.1 Million

TOTAL -- $3.58 Billion

Mandatory Federal Farm Programs

<u>Conservation</u>

Today, consumers have affordable access to the most abundant and diverse food supply in the world. However, aside from market diversity and competitive prices, consumers demand that food be held to a very high standard. Likewise, consumers want an agricultural production system that not only produces abundant, affordable and safe food and fiber, but also conserves and enhances the natural resource base and protects the environment.

Unfortunately for producers, investments in natural resource management and conservation are rarely recouped. The short-term economic value for the farmer does not compare to the ecological and fiscal benefits for the public and for future generations. The benefits increase for the public in the form of a more stable and productive farm economy and an improved environment. Protecting the environment and productivity today will mean less cost for producing products in the future and will therefore assist in ensuring sustainability in the years ahead.

For the produce industry, there continues to be mounting pressures of decreased availability of crop protection tools that can be used to provide the abundant and safe food supply the consumer demands. In turn, environmental regulations continue to put pressure on the industry's ability to be competitive in a world economy. Because of these factors, the industry should consider any available assistance that encourages producers to invest in natural resource protection measures they might not have been able to afford without such assistance.

Policy Statement – *The federal government should offer a basic level of funding assistance and credit to preserve its commitment to support conservation initiatives to guarantee a safe, healthy and sustainable environment within produce production areas.*

Legislative Recommendations:

A. Enactment of legislation to provide for the expansion of the Conservation Reserve Program, Conservation Reserve Enhancement Program, and Conservation Buffers cost-share programs. Acreage eligible to be enrolled in the CRP should be increased to 39 million acres. New acreage should be targeted towards conservation buffers, filters strips, and increases in state designation CRP priority areas from 10 percent to 15 percent.

Annual funding increase over current CRP outlays: **$182 Million**

B. Ultimately, the goal of conservation and environmental programs is to achieve the greatest environmental benefit with the resources available. As has been indicated in previous testimony before the Committee, there is a tremendous backlog of unfunded EQUIP proposals. Arbitrarily setting numerical caps that render some producers eligible and others ineligible is not an effective utilization of policy priorities. The produce industry supports the enactment of legislation to:

- ⇒ Increase the funding for the Environmental Quality Incentives Program
- ⇒ Remove funding limitations between livestock and crop producers and funding availability for all agricultural producers.
- ⇒ Remove size restrictions of producer's operation.

Annual funding increase over current EQUIP outlays: **$326 Million**

C. Many fruit and vegetable producers would like to enroll in various USDA conservation programs including the CRP and CREP. Unfortunately because of the current conservation priorities established under previous Farm Bills for conservation programs, it remains difficult for produce farmers to utilize these important programs effectively. Consequently the produce industry would strongly encourage Congress to consider initiatives such as the Conservation Security Act which would provide an economic incentive-based program for voluntary participation in developing and implementing conservation management plans. Through the implementation process, a producer would then become eligible for government assistance based on the environmental benefit gained from the implemented conservation management plan and the cost associated with this plan. Conservation management plans would look to address clean air, water quality, and conservation, soil erosion, currently defined Integrated Pest Management practices, and wildlife habitat restoration.

Annual funding Outlays: **$200 Million**

Federal Nutrition Policy

Fruits and vegetables are more than simply an agricultural crop – these products are the keys to health for millions of Americans. Today, between 300,000 and 600,000 Americans die each year due to unhealthy eating and physical inactivity. The greatest opportunity to exert some budgetary control over the soaring health care costs associated with these premature deaths is to invest in prevention efforts through healthy eating. For the first time, the *Dietary Guidelines for Americans 2000,* jointly published every five years by the U.S. Department of Health and Human Services (HHS) and the USDA, includes individual guidelines urging all Americans to eat a minimum of five-to-nine servings of fruits and vegetables daily. While nutrition policy is not solely a Farm Bill issue, we have a unique opportunity to make sure that policies under the purview of the House and Senate Agriculture Committees are carefully considered so that the new *Guidelines* are fully implemented. To this end, future farm policy will not only support American agriculture; it will support and encourage the health and well-being of all Americans.

Policy Statement – *Across the life span, proper nutrition is critical in promoting health, preventing disease, and improving quality of life. Therefore, agriculture policies and related domestic and international nutrition assistance programs should support incentives and key strategies that help Americans reach national health goals and ultimately reduce health care costs.*

Legislative Recommendations:

A. To optimize the amount of fresh fruits and vegetables in the USDA feeding programs (including School Lunch, School Breakfast, Child and Adult Care, TEFAP, FDPIR, Elderly Nutrition Programs, and CSFP) require expenditures of funding for surplus purchases of produce commodities.

Annual funding outlays: **$500 Million**

B. Establish a Food Stamp supplemental benefit for the purchase of fresh produce at participating retailers and farmers markets. To improve the diets and reduce chronic disease health risks of individuals who are eligible to receive Food Stamps, a supplemental benefit of $10 per week would be provided on their Electronic Benefit Transfer (EBT) card. This supplemental benefit would be added onto the current Food Stamp participants EBT card and could be utilized to purchase only fresh fruits and vegetables.

Annual funding increase over current Food Stamp outlays: **$1.7 Billion**

C. Legislation enacted that will aid to improve the health of WIC participants who are found nutritionally at risk in vital nutrients. This provision will require USDA to incorporate into the WIC monthly food package a variety of produce commodities which provide vital nutrients needed for eligible WIC participants. Presently, WIC food package produce commodities are limited to fruit and vegetable juices and carrots.

Annual funding increase over current WIC outlays: **$100 Million**

D. To begin to address the increasing problem of obesity among children and associated risk of cardiovascular diseases, diabetes, and other serious health problems, a supplemental increase per meal shall be provided for fresh produce purchases. Increase reimbursements to local school districts for additional purchases of fresh produce include the expansion of salad/fruit bars within appropriate nutrition assistance programs.

Annual funding increase over current meal reimbursement outlays: **$200 Million**

Total annual funding increase for nutrition programs over current outlays: **$2.0 Billion**

International Market Access and Food Aid Policy

The economic well-being of the produce industry and other agricultural commodity sectors depends heavily on exports which account for one-third or more of domestic production, provides jobs for millions of Americans, and makes a positive contribution to our nation's overall trade balance. This year, the value of U.S. agriculture exports is projected to be approximately $53 billion, well below the record $60 billion in 1996. This decline is due to a combination of factors, including continued subsidized foreign competition and related artificial trade barriers. Without improved international trade policies that advance open and fair trade practices in the global market, the U.S. surplus in agricultural trade which has declined over 50 percent during the last five years will continue to fall.

U.S. fruit and vegetable growers face significant obstacles in the development of export markets for their commodities and unique challenges due to the perishable nature of our products. Without further commitment to export market development by the federal government and commitment to reducing tariff and non-tariff barriers to trade, the U.S. produce industry will continue to lose market share to global market competitors.

Policy Statement – *To eliminate of the trade inequities created by the combination of world subsidies, tariffs, and domestic supports as measured against the current U.S. tariff structure and trade policy, aggressive policy measures should be enacted to maintain and expand U.S. agricultural exports, counter subsidized foreign competition, maintain and enhance U.S. agriculture's favorable trade balance, improve agricultural income, protect and increase export-related jobs, and strengthen U.S. trade negotiating positions under the WTO.*

Legislative Recommendations:

A. Enactment of legislation to increase funding authority for the Market Access Program (MAP) from $90 million to $200 million. In addition, the MAP program should be altered to provide flexibility in expanding the five year stipulation for international product promotions under the MAP based on existing market access and trade barriers.

Increase in annual MAP funding outlays: **$110 Million**

B. Enactment of Legislation to authorize a minimum of $35 million for the Foreign Market Development (FMD) Cooperator Program.

Annual minimum FMD funding outlay: **$35 Million**

C. Enactment of legislation authorizing increases in funding for all foreign food aid programs (including P.L 480 [Titles I, II, III], Section 416(b), and Food for Progress). Also enact legislation that establish allocation priorities and allows for the utilization of U.S. fresh produce commodities for eligible countries in order to meet the nutritional needs of various underserved populations.

Increase in annual funding outlays: **$15 Million**

D. Enactment of legislation to authorize a Technical Assistance for Specialty Crops (TASC) fund within the Foreign Agriculture Service (FAS) to address the unique technical problems facing exports of U.S. fresh fruits and vegetables. Such a fund would be used to remove, resolve and/or mitigate phytosanitary and technical trade barriers. Activities would include but not be limited to research, pest risk assessments, field surveys, development of database/resource materials, training, technical and/or professional exchanges.

Annual funding outlays: **$3 Million**

Pest and Disease Exclusion Program Policy

The liberalization of international trade in agricultural commodities and commerce coupled with global travel has greatly increased the number of pathways for the movement and introduction of foreign, invasive agricultural pests and diseases. Fruit imports increased from 1.35 million metric tons in 1990 to 2.82 million metric tons in 1999, while imports of fresh citrus products alone increased from 101,000 metric tons in 1990 to 348,000 metric tons in 1999. Vegetable imports increased from 1.90 million metric tons in 1990 to 3.73 million metric tons in 1999 and fresh tomato imports have doubled during that period as well. In addition, states such as California and Florida are seeing record numbers of tourists and other visitors arriving each year. Some 330 million visitors entered California and Florida collectively through airports, seaports and highways in 1998, a combined increase of over 4.5 percent over the previous year. Also, new pest pathways such as wood packing materials are emerging.

The estimated economic harm to the United States from these biological invaders is now estimated in excess of $120 billion annually. Recognizing the need to address this serious situation, the produce and nursery industries strongly supported the passage of H.R. 2559, the *Plant Protection Act of 1999*, which now offers USDA the improved means to protect our nation's agricultural crops from invasive pests being transported into this country. Additionally, USDA's APHIS report, *Safeguarding American Plant Resources - A Stakeholder Review of the APHIS-PPQ Safeguarding System,* which was coordinated by the National Plant Board contains over 300 recommendations for preventing the further spread and future outbreaks of exotic diseases and pests in the future. Expeditious implementation of the *Plant Protection Act*, in coordination with the recommendations included in the *Safeguarding Report*, are imperative to preventing future losses and maintaining stability within the produce industry.

Policy Statement – *With economic damages from invasive pests and disease now exceeding $120 billion annually, the fresh produce industry supports expedited and aggressive actions by the federal government in cooperation with the industry and stake holders at the state and local levels to eradicate and protect the domestic market from increasing threat of exotic pests and diseases entering the U.S. through international commercial shipments of products as well as the importation of agricultural contraband by vacationing travelers and commercial smugglers.*

Legislative Recommendations:

A. Enactment of legislation authorizing funding and providing direct responsibility and related expanded authority for APHIS to develop an adequate emergency eradication/research fund that could be accessed to address economic and health threats posed by invasive pests and disease as determined by the USDA Secretary. This fund would be set up as a revolving account (no-year fund) which would be capped at $50 million. Consequently, the fund would be replinished based on a fiscal year utilization.

First year (2003) funding outlay: **$50 Million**
Subsequent years: **Based on outlay's fiscal year utilization capped at $50 million**

B. The produce industry strongly supports the expiration of Section 917(5) of the FAIR Act allowing for all user fees collected under the Agricultural Quarantine Inspection (AQI) program to be utilized for AQI.

<u>USDA's Inspection Service and Fair Trading Practices Programs</u>

USDA's fruit and vegetable inspection is a voluntary, fee-for-service program, administered by the AMS since 1928. The objective of the inspection program is to facilitate trade by providing buyers and sellers of fresh fruits and vegetables with impartial and accurate information about the quality (inherent, non-progressive characteristics, such as size or shape) and condition (defects of a progressive nature, such as decay or ripeness) of shipments of fresh produce based on well-known, published USDA standards.

The inspection program for fresh fruits and vegetables is available at shipping points located in growing areas and at wholesale markets and other points where large volumes of fresh produce are received. At shipping points, inspection is requested by growers, processors or packers for quality assurance, to satisfy the requirements of state or federal marketing orders, or to verify compliance with specifications on fresh produce. At wholesale markets, fresh produce inspection is most often requested to resolve a dispute between a buyer and seller about the quality or condition of delivered produce. In either case, the inspection program enables financially interested parties to verify the extent to which shipments meet expectations.

At wholesale markets, either the seller or a prospective buyer can request AMS inspection. Although shippers at times initiate the request, most often it is buyers that ask for inspections, generally when they suspect that the shipment does not meet contract requirements and are seeking an adjustment in the price. Approximately 180,000 inspections are performed at wholesale markets each year and the cost can vary depending on a variety of factors (e.g., amount of product involved, whether quality and condition or just condition are evaluated, etc.). An hourly rate of $43 is charged, with an average two-hour inspection to determine the quality and condition of a shipment typically costing $86.

The AMS also administers the Perishable Agricultural Commodities Act of 1930 (PACA). PACA established a code of fair trading practices covering the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It protects growers, shippers, distributors, retailers and others who deal in those commodities by prohibiting unfair and fraudulent practices. Specifically, PACA: (1) prohibits unfair and fraudulent practices in the fresh and frozen fruit and vegetable industry; (2) provides a means of enforcing contracts between buyer and seller; and (3) helps ensure that produce-related assets remain available to pay suppliers if a receiver enters bankruptcy proceedings. Most traders of fresh or frozen produce must obtain a valid PACA license which is issued by the Fruit & Vegetable Programs and that license fees support the administration of the PACA program.

Last year's bribery and racketeering scandal at the October 1999 Hunts Point Terminal Produce Market in New York has severely damaged the fruit and vegetable industry's confidence in USDA's inspection system. Fruit and vegetable growers, and indeed the entire produce industry, depend heavily on the inspection system to provide a credible and consistent third-party analysis of product condition at both shipping point and upon arrival. Without a sound inspection system in place, growers are at the mercy of unscrupulous buyers who would use bogus condition problems to leverage a reduction in the price of the load.

It is critical that the entire USDA inspection system be overhauled to ensure that this kind of corruption of the system is eliminated. The 106^{th} Congress approved $71 million to modernize the inspection system across the country, while keeping both inspection costs and PACA license fees to all industry members at current levels for at least the next five years. Industry recommendations such as an inspection training center, technological improvements, and inspector training modules should be implemented as a part of this modernization. Expeditious implementation of these recommendations is urgently needed so that confidence in the system can be restored and a seamless, transparent, and efficient system is in place as soon as possible.

Policy Statement – *The produce industry strongly supports the federal inspection service program and believes it serves as one of the fundamental safeguards for the produce industry. In turn, USDA should work closely with the produce industry and state inspection systems to prepare a strategy of utilizing the $71 million allocated by Congress to modernize a system that will administer fair and impartial inspections. The produce industry also supports the full* *utilization of the PACA law and encourages USDA to administer the law in a fair and timely manner*.

Legislative Recommendations:

A. Enactment of legislation which will provide a "safety net" for victims of the Hunts Point incident, to be allocated based on PACA formal complaint findings. Specifically, a special fund would be established to compensate victims of the Hunts Point:

⇒ All claimants who filed on or before January 1, 2001 and are proceeding through the PACA formal complaint process would be eligible.
⇒ PACA would be directed to exercise the full use of its authority against guilty parties associated with the Hunts Point scandal.
⇒ The PACA formal case ruling would be final and the claimant would agree to take no further judicial action.
⇒ PACA would be required to expedite these formal cases within 18 months.

One-year funding outlay: **$10 Million**

Discretionary Farm Programs

Agriculture Research

Research serves as a foundation for the advancement of any industry. Unfortunately, over the years, investment in federal agricultural research specifically targeted to meet the needs of the fresh produce industry has been directed to limited priorities and areas of need. Investments in federal research should be re-examined to meet the unique research and development needs of the fresh fruit and vegetable industry including competitive prominence in both the domestic and international marketplace. In particular, research should be focused in the areas of nutrition; new technological enhancements to production and processing systems; new variety and quality improvements; environment and conservation benefits of produce production; crop protection tools and alternatives; and, prevention of exotic pests and diseases.

Policy Statement **–** T*o further increase economic efficiency within the fruit and vegetable sector as well as document applicable health and environmental benefits to all Americans, the produce industry supports a coordinated federal research agenda to further promote produce consumption and competitive prominence in both the domestic and international marketplaces.*

Legislative Recommendations:

A. Enactment of legislation authorizing funding and directing the USDA Agriculture Research Service (ARS), Cooperative State Research, Education, and Extension Service (CSREES) and Economic Research Service (ERS) to expand ongoing research in the area of human nutrition to specifically address:

⇒ The impact of increased fruit and vegetable consumption toward preventing chronic diseases, including reducing obesity, diabetes, diverticulosis, cataracts, cancer, heart disease, stroke, and hypertension, and the overall benefits of whole food consumption including documentation of certain phytonutrients found in fresh produce that may help prevent such chronic diseases; Estimated cost

⇒ Development of more effective behavior-based dietary interventions and health promotion programs within federal nutrition programs to increase consumption of fruits and vegetables based on federal dietary guidelines, including environmental influences, strategies for overcoming barriers to behavior change, and food preference development for children and adolescents; and

⇒ Influences on food choices and options for providing an optimal environment for making informed healthy food choices in a free-market economy including evaluation of different health communications and delivery mechanisms to reach underserved and nutritionally "at risk" populations.

Funding outlay: **$5 Million**

B. Enactment of legislation authorizing funding and directing ERS to quantify the clean air benefits of the specialty crop industry in relation to urban sprawl or fallow land.

Funding outlay: **$3 Million**

C. Enactment of legislation authorizing funding and directing the ARS and CSREES to conduct research in the areas of mechanized harvesting and new production and processing methods for fresh fruit and vegetable commodities.

Funding outlay: **$2.5 Million**

D. Enactment of legislation authorizing funding and directing the ARS and CSREES to conduct pre-harvest and post harvest research specifically targeted to maintain and enhance the quality of fresh produce, including taste and appearance.

Funding outlay: **$3 Million**

E. Enactment of legislation authorizing funding and directing USDA to conduct additional research to develop cost effective and efficacious new crop protection tools and Integrated Pest Management (IPM) systems to address the loss of key pesticides through the implementation of the Food Quality Protection Act (FQPA) and related measures.

Funding outlay: **$5 Million**

F. Enactment of legislation that would authorize funding for USDA to conduct specific research to identify and prioritize the harmful economic/health impact of foreign invasive pests and diseases now threatening the U.S. and for the development of corresponding eradication/control programs.

Funding outlay: **$5 Million**

Domestic Agriculture Policy

In an effort to control farm spending, give farmers greater planting flexibility, and be consistent with trade agreements to lessen subsidies and production controls, the 1996 farm law discontinued production controls, capped marketing loan assistance, and broke the link between farm payments and market prices. Eligible farmers were guaranteed annual, lump sum "market transition" payments that declined in amount each year until 2002, when they were to be phased out entirely. These annual contract payments were made regardless of market prices and production, and farmers were given almost total planting flexibility – with the exception of the limitation of planting fruits and vegetables. For the first two years after the Farm Bill, prices for many farm commodities and farm income reached record highs. However in late 1997, prices and income began to fall as supplies grew and demand fell. The absence of a so-called "safety-net" to counter economic downturns put pressure on Congress to approve a series of "emergency" farm aid measures to shore up farm income.

The fact that large supplemental payments were adopted three years in-a-row has caused a critical examination of domestic support policy. A substantial portion of the farm relief was disaster assistance, which is not related to commodity support policy, however, about $27 billion in supplemental relief was paid to farmers. In general, the produce industry agrees that fruit and vegetable producers should be an equal participant in federal assistance programs that neutralizes forces beyond its control such as weather, disease, or other natural disasters.

Policy Statement – *The federal government should elevate its financial investment into program priorities for the produce industry and work cooperatively to ensure U.S. fruit and vegetable producers are competitive in domestic and international markets. In turn, the goal of any farm policy should be to enhance the tools necessary to drive demand, utilization, and consumption of fruits and vegetables, and not distort the production and marketing these commodities in the United States.*

Legislative Recommendations:

A. The current planting restrictions for fruits and vegetables, as prescribed under the Federal Agricultural Improvement Act of 1996 (FAIR), **should be maintained**.

B. The current limit on direct operating loans of $200,000 should be increased to $500,000 for producers of perennial fruit and vegetable crops.

Annual funding increase over current direct operating loan outlays: **$42 Million**

C. The current limit on guaranteed operating loans of $731,000, which is adjusted annually for inflation, should be increased to $1.5 million for producers of perennial fruit and vegetable crops.

Annual funding increase over current guaranteed operating loan outlays: **$20 Million**

Federal Nutrition Policy

A. Enactment of legislative authorizing funding and direct USDA to conduct a study of procurement, contracting, and delivery procedures to be completed within 12 months, aimed at increasing produce purchases within the USDA feeding programs based on the Dietary Guidelines for Americans 2000. The study should specifically examine AMS procurement and contracting procedures to optimize the amount of fresh produce purchased through USDA. This study should also have the direct participation of produce industry experts.

Funding outlay: **$2 Million**

B. Enactment of legislative authorization and direct USDA to create a public/private matching program to initiate a nationwide education program to promote increased fruit and vegetable consumption. Similar to the MAP program, produce companies and association would provide a detailed proposal which would be used to elevate the awareness and educate the targeted audience on the importance of proper diets and physical activity. If approved USDA would match (up to 50%) of the implementation cost for this program.

Funding outlay: **$50 Million**

C. Enactment of legislation to expand USDA's Global Food for Education pilot program, formally announced in September 2000, to allow the purchase of U.S. fresh produce commodities in order to meet nutrient deficiencies of under-served populations.

Food Safety Initiatives

The *Federal Food, Drug, and Cosmetic Act* (FFDCA) provides' ample authority to FDA to assure the safety of fresh fruits and vegetables. Under the FFDCA, FDA is granted wide latitude to refuse food into interstate commerce if it appears from an examination, or otherwise, that a food is adulterated, misbranded, or has been manufactured, processed or packed under unsanitary conditions. The produce marketplace is highly intolerant of unsafe food and will react swiftly to outbreaks of foodborne illness. Today, grocery retailers and restaurant operators routinely ask their produce suppliers what measures have been implemented to assure safety and likewise, insurance carriers ask their grower, packer and shipper clients to take appropriate steps to minimize food safety related risks. The produce industry has made great strides domestically and internationally to identify potential sources of microbial hazards in fresh fruits and vegetables, and the industry has and is willing to implement prudent measures to prevent the outbreak of problems in the future.

Policy Statement – *The fresh produce industry is committed to reducing the risk of foodborne illness and is highly intolerant of unsafe food that may result in foodborne illness and can affect public perception about the health benefits of increased produce consumption. Stringent voluntary measures should continue to be employed to identify and reduce potential sources of microbial hazards in fresh fruits and vegetables. Additionally, the fresh produce industry supports the implementation of prudent measures including education initiatives at the industry and consumer levels to reduce occurrences of microbial pathogens and promote sound sanitary practices.*

Legislative Recommendation:

A. Enactment of legislation that would authorize a public/private food safety education initiative to educate consumers and growers, shippers and handlers of fresh produce about scientifically proven practices for reducing microbial pathogens and consumer/handler messages for reducing the threat of cross contamination through unsanitary handling practices.

Funding outlay: **$2.5 Million**

B. Within the Office of the USDA Secretary, increase funding for USDA's Office of Pest Management Policy (OPMP).

Funding outlay increase: **$5 Million**

<u>Marketing Orders and Promotion Programs</u>

Under the Agricultural Marketing Agreement Act of 1937, marketing orders and marketing agreements, were established to help stabilize market conditions and expand, maintain, and develop markets in the United States and abroad for fruit and vegetable products. Promotion and research programs are similar to marketing orders, but are established under separate legislation or the under the authorities established in previous Farm Bills. Fruit and vegetable marketing orders, promotion programs, and research programs are administered and overseen by USDA's AMS and all handlers who are in a geographic area prescribed by an order must abide by its rules. Ideally, the programs assist farmers in allowing them to collectively work to solve marketing and promotion problems. Industries voluntarily enter into these programs and choose to have federal oversight of certain aspects of their operations. Programs for fruits and vegetables are administered by local administrative committees, which are made up of growers and/or handlers, and often a public member. Committee members are nominated by the industry and appointed by the USDA Secretary. The regulations are issued and become binding on the entire industry in the geographical area regulated if approved by at least two-thirds of the producers by number or volume and if approved by the Secretary.

Policy Statement – *Congress and the Administration should continue to support the use and development of marketing orders, promotion programs, and research programs as tools for the fruit and vegetable industry to help influence consumption and facilitate increased marketing opportunities. In general, the produce industry believes that marketing orders and promotion programs share common goals to stabilize the agricultural economy, promote agricultural products, protect consumer health, and providing funding for necessary research and new product initiatives. Overall, these programs benefit producers, consumers, and the agricultural economy.*

Legislative Recommendations:

A. Enactment of legislation which would require a review of the regulatory structure for marketing orders, promotion programs, and research program guidelines to streamline the current regulatory structure in order to enhance the use of promotion programs and limit administrative cost for the participants to a specified budget percent or dollar cap whichever is less.

B. Legislative stipulations on USDA’s appointment to commodity boards and local committees defining a specific timeframe for USDA to act on nominations submitted.

C. Clarify the ability of marketing order and related promotion and research boards to participate in public discussions regarding food safety, product quality, and market access to increase export market development.

D. Enactment of legislation to expand USDA's current options to enforce compliance.

E. Review the use of the generic marketing orders, promotion programs, and research programs established in the 1996 Farm Bill to enhance its effectiveness and usefulness.

F. Enactment of legislation to exempt certain competitive or proprietary (such as competitive sector analysis or research results) information from disclosure under the Freedom of Information Act.

Retail Trade Practices

In the past year, trade practices between fresh produce shippers and food retailers gained national attention. The Federal Trade Commission (FTC) and the U.S. Senate Committee on Small Business conducted hearings with industry leaders, government officials, and academics who offered their perspectives on how both the recent wave of supermarket mergers and the growth of new trade practices have affected various industries, including the produce industry.

Fruit and vegetable growers are deeply concerned about the consolidation of retail food marketers in the United States. In turn, the produce industry strongly supports appropriate federal and congressional oversight of retail mergers and consideration of the impact of that consolidation on the fruit and vegetable industry. For example the five largest food retailers in the country accounted for 40 percent of industry-wide sales equaling $270.7 billion in 1998 compared to five years earlier, when the top 20 companies were needed to reach the same percentage of sales. As buying power concentrates within the retail industry, fruit and vegetable producers have fewer customers to whom they can sell their highly perishable and price sensitive commodities. The net result is continued pressure to reduce prices paid to growers. Unfortunately, consumers rarely see the benefit of these lower producer prices. Recent government surveys confirm a wide disparity and general lack of relationship between farm and retail prices.

In addition to heightened pricing pressures, fruit and vegetable growers and shippers are increasingly being asked to provide trade promotion payments to retailers, ostensibly to support the marketing costs of the grower's crops. In practice, however, growers report that these pay-to-play payments rarely result in visible benefits, and may only serve to boost profit margins for retailers. Ultimately, the cost of these fees comes from the growers' profit margins, which in today's environment are very slim and in many cases non-existent.

Policy Statement – *Congress and the Administration should thoroughly review the implications of consolidation of food retailers and suppliers and the impact on fruit and vegetable growers and shippers should be a major component of that review. Ultimately, produce marketing and retail trade practices must be measured against the criteria of whether they add value to the product, enhance market access, and increase availability to the consumer.*

Legislative Recommendations:

A. Enactment of legislation that would authorize funding and direct USDA's ERS to augment existing research efforts on the impact retail trade practices has on the fruit and vegetable industry.

Funding outlay: **$1 Million**

B. Enactment of legislation that would authorize funding and direct USDA to prepare guidelines and recommendations of PACA enforcement latitude for slow pay, inspection retribution, and other reprisal type activities.

Funding outlay: **$1 Million**

C. Enactment of legislation that would authorize funding and support a joint examination by Congress, USDA, and FTC of the effect on small businesses and consumers and whether the concentration of market power is adversely affecting normal market place efficiencies.

Funding outlay: **$1 Million**

Risk Management Tools

Risk has always been a part of agriculture and today, agriculture producers have an array of tools at their disposal with which to manage risk. These tools include crop and/or revenue insurance, production contracts, marketing contracts, hedging in futures, futures options contracts, vertical integration, diversification, off-farm income, and production and cultural practices.

The produce industry has changed dramatically over the years and the industry is now learning that it is a game with new rules, new stakes, and most of all, new risks. The nation's most successful producers are now looking at a deliberate and knowledgeable approach to risk management as a vital part of their operations. For them, risk management means operating a business with confidence in a rapidly changing world and their ability to deal with risks that come with new and attractive business opportunities. Over the years, little has been done at the federal level to ensure that the fruit and vegetable industry has access to risk management tools that are cost effective and reliable. Additionally, the produce industry has become increasingly concerned about the development of risk management products that can create market distortion.

There now exists a window of opportunity to change the way produce industry risk management tools are developed and administered in such a way to reflect the fundamental differences between growing and marketing fruit and vegetable crops as opposed to traditional farm program crops. By increasing the flexibility of risk management tools that will respond to the diverse and heterogeneous needs of producers and commodities, and by creating policies that are of real value to growers, opportunities for effective risk management options for the fruit and vegetable industry can be achieved.

As Congress begins its consideration of the 2002 Farm Bill, general oversight of the ARPA will clearly be a part of the mix. This will allow the produce industry an opportunity to assure that USDA is giving proper weight to its mandate to improve service for fruit and vegetable growers. If there are weaknesses or gaps in the legislation, we will have a chance to refine it so that the produce industry is supportive of the effort.

Policy Statement – *Public and private sector development and utilization of risk management tools which help to neutralize forces beyond the produce industry's control such as weather, disease, or other natural disasters should be strongly encouraged. In turn, the produce industry also supports improvements and innovation for the advancement of risk management tools that* <u>*do not*</u> *distort the fresh fruit and vegetable market by price elections that are higher than the market place or by having policy provisions that encourage additional or over production. Finally, the adoption of strong enforcement mechanisms which will prevent fraud, manipulation, and abuse of risk management options must continue.*

USDA's Inspection Service and Fair Trading Practices Programs

Legislative Recommendations:

A. Legislation allowing for USDA's AMS to develop performance standards (i.e. timely inspections and PACA case reviews) for USDA employees involved in inspecting and grading fresh fruits and vegetables.

B. A thorough review by AMS regarding the consistency and reliability of produce inspections throughout the delivery chain, including the examination of inspection data from both the shipping and destination points. In addition, AMS should address the appeals process and have it subject to oversight and random audits.

C. Legislative safeguards which allow for industry consultation of PACA and Inspection Service reserve funds.

D. Development of an annual report which provides information to the produce industry on the PACA and Inspection Service Programs. This information could be a tremendous benefit to both the industry and AMS while providing transparency into the use-fee program. Examples of information in the report could include: number of inspections completed; average time for the consideration and completion of PACA case; allocation and investment of funding for PACA and inspection programs; and average cost of inspections by region.

Funding outlay: **$100,000**

Miscellaneous Policy Considerations

Agriculture Research

A. Enactment of legislative language directing USDA to elevate the priority of current methyl bromide alternative research and extension activities and reexamine the risks and benefits of extending the current phase-out deadline for methyl bromide based on the economic impact of leaving U.S. farmers and the food industry with no viable alternative.

B. Enactment of legislative language to require greater transparency and coordination in the planning and dissemination of federal research findings between federal research agencies and private sector commodity associations and related produce companies.

International Market Access and Food Aid Policy

A. Enactment of legislation that would provide the United States Trade Representative with enhanced authority to automatically enforce retaliatory actions based on the substantiation of any unfair trade barrier found to severely threaten the economic viability of any agricultural commodity.

B. Full implementation of the Byrd Amendment as related to anti-dumping compensation.

Marketing Orders and Promotion Programs

A. Enactment of legislation which would clarify the definition of "persons" under the Sherman Act, and apply greater anti-trust protections to committee members when acting within the scope of their service to the industry.

Pest and Disease Exclusion Program Policy

A. Enactment of legislation to codify the primary role of APHIS in "*safeguarding America's plant resources from invasive pests*" and underscoring the importance of expeditious implementation of the 300+ recommendations contained in the *Safeguarding Report* and related efforts to facilitate market access.

Other Policy Priorities

A. Support for the inclusion of a Farm, Fishing and Ranch Risk Management (FFARRM) accounts which allows for agricultural producers to contribute up to 20 percent of their farm income into a FFARRM account and defer this amount from their taxes for five years.

B. Elimination of the estate tax.

WTO Obligations

The produce industry recognizes the prevailing WTO agreements are designed to impose disciplines on U.S. farm policy. In general, the WTO provisions tend to favor price and income support measures that are decoupled from acreage, production and prices. Such supports are considered non-trade distorting and are not limited under current WTO rules. In turn, recommending farm policy, which is WTO compliant, is our primary objective for the produce industry. Under the mandatory farm policy programs, the current proposals presented by the produce industry based on our analysis fall into the WTO "green-box category and are consistent with the non-trade distorting WTO rules. Consequently, none of the current recommendations could be attributed to amber-box programs under the WTO system.

Impact on Other Commodity Sectors

With over 200 specialty crops grown in the United States it is extremely important to develop farm programs that do not provide a distinct competitive advantages for a particular commodity or segment of the industry over others. What has been presented by the produce industry in this proposal are a menu of options and programs that any grower can use to help strengthen their current economic condition. In turn, a segment of these recommendations allows for the expansion of current farm programs that have not traditionally been utilized by the produce industry. However, we strongly encourage the Committee to embrace the utilization by the produce industry of these types of programs to ensure the continued viability of the United States fruit and vegetable industry.

Overall Farm Program Spending

As indicated in our statement today, the produce industry encourages Congress and the Administration to elevate its financial investment into program priorities for the produce industry and work cooperatively in achieving the industry's continued growth and prosperity. What we have presented in this testimony is a comprehensive list of priority issues and legislative recommendations for the Committee to consider. In turn, we recognize that as with any new or expanded program, in most cases, financial resources have to be applied, increased, or reprogrammed to account for the cost associated with these initiatives. On the other hand, in the produce industry's analysis, investments into programs and policy initiatives which drive demand and utilization of agricultural products is the most strategically feasible utilization of 3.58 billion in budgetary outlays for our industry. We consider this proposal as following along those lines of strategic thinking.

In addition, the produce industry strongly supports the efforts of the House and Senate during the budgetary debate to increase the investment in farm spending. We particularly applaud the commitment of Chairman Combest for his role in securing additional funding for the agriculture community. In turn, the produce industry would like work closely with the Committee to obtain the necessary outlays that can be utilized for our priority programs through additional funding expenditures or current funding mechanisms.

Conclusion

On behalf of the produce industry's Farm Bill Working Group, we look forward to working with the Committee to take on these important issues and the many other challenges facing the fruit and vegetable industry. Fruit and vegetable growers produce crops that are vital to the health of Americans and represent a significant segment of American agriculture. We urge Congress to take these issues, and the many other challenges facing the fruit and vegetable industry, fully into consideration as you move forward in the development of the successor to the *Federal Agriculture Improvement and Reform Act (FAIR).*

Endnotes:

[i] Information researched from USDA's Report *Understanding the Dynamics of Produce Markets*
[ii] Information researched from National Food and Agriculture Policy Project *2001 U.S. Fruit and Vegetable Outlook*